Solution 21.1

Part A:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
31 December 20X2		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Impairment loss – plant	90 000	
Plant: accumulated impairment losses		90 000
Impairment of plant at year end:		
CA: (500 000 – 200 000) – RA: 210 000		
31 March 20X3		
Depreciation – plant	17 500	
Plant: accumulated depreciation		17 500
Depreciation of plant: 210 000 / 3 years remaining x 3/12		
Impairment loss – plant	2 500	
Plant: accumulated impairment losses		2 500
Impairment of plant before reclassification (IAS 36.8):		
CA: (210 000 – 17 500) – RA: 190 000 (being fair value less costs to sell = 200 000 – 10 000 = 190 000 being > VIU of 160 000)		
Non-current asset held for sale	190 000	
Plant: accumulated impairment losses (90 000 + 2 500)	92 500	
Plant: accumulated depreciation (100 000 + 100 000 + 17 500)	217 500	
Plant: cost		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
31 December 20X3		
Non-current asset held for sale	92 500	
Impairment loss reversed – non-current asset held for sale		92 500
IFRS 5 (p21): Re-measurement of asset 'held for sale' at year end: Previous FV less costs to sell (200 000 – 10 000) increased to the latest FV less costs to sell (300 000 – 10 000); increase of 100 000 limited to prior cumulative impairment losses of (90 000 + 2 500)		

Solution 21.1 continued …

Part A: continued …

b) Disclosure

ERADICATE LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
Non-current assets				
Property, plant and equipment		5	0	210 000
Non-current assets held for sale		6	282 500	0

ERADICATE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Calculations	**20X3 C**	**20X2 C**
5	**Property, plant and equipment**			
	5.1 Plant			
	Net carrying amount: 1 January		210 000	400 000
	Gross carrying amount: 1 January		500 000	500 000
	Accumulated depreciation and impairment losses: 1 January		(290 000)	(100 000)
	(Impairment loss)/ reversal		(2 500)	(90 000)
	Depreciation		(17 500)	(100 000)
	Classified as held for sale		(190 000)	0
	Net carrying amount: 31 December		0	210 000
	Gross carrying amount: 31 December		0	500 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(290 000)
6	**Non-current assets held for sale**			
	6.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		190 000	0
	Increase/ (decrease) in fair value less costs to sell			
	- (impairment loss)/ reversal	*100 000 limited to (90 000 + 2 500)*	92 500	
	Net carrying amount: 31 December		282 500	0

A decision was taken on 1 April 20X3 to dispose of the plant because of ….
It is expected to be sold for cash and that the sale will be completed by … (date).
This asset is presented in the _____ segment.

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant (IAS 16)	17 500	100 000
• Impairment loss (reversed) - plant (IAS 36)	2 500	90 000
• Impairment loss (reversed) - asset held for sale (IFRS 5)	(92 500)	0

Solution 21.1

Part B:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Tax expense	7 500	
Deferred tax		7 500
Deferred tax adjustment – see DT table		
31 December 20X2		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Impairment loss – plant	90 000	
Plant: accumulated impairment losses		90 000
Impairment of plant at year end:		
CA: (500 000 – 200 000) – RA: 210 000		
Deferred tax	19 500	
Tax expense		19 500
Deferred tax adjustment – see DT table (27 000 – 7 500)		
31 March 20X3		
Depreciation – plant	17 500	
Plant: accumulated depreciation		17 500
Depreciation of plant: 210 000 / 3 years remaining x 3/12		
Impairment loss – plant	2 500	
Plant: accumulated impairment losses		2 500
*Impairment of plant **before** reclassification (IAS 36.8):*		
CA: (210 000 – 17 500) – RA: 190 000 (being fair value less costs to sell = 200 000 – 10 000 = 190 000 being > VIU of 160 000)		
Non-current asset held for sale	190 000	
Plant: accumulated impairment losses (90 000 + 2 500)	92 500	
Plant: accumulated depreciation (100 000 + 100 000 + 17 500)	217 500	
Plant: cost		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
31 December 20X3		
Non-current asset held for sale	92 500	
Impairment loss reversed – non-current asset held for sale		92 500
IFRS 5 (p 21): Re-measurement of asset 'held for sale' at yr end: Previous FV less costs to sell (200 000 – 10 000) increased to the latest FV less costs to sell (300 000 – 10 000); increase of 100 000 limited to prior cumulative impairment losses of (90 000 + 2 500)		
Tax expense	59 250	
Deferred tax		59 250
Deferred tax adjustment – see DT table (32 250 – 750 + 27 750)		

Solution 21.1 continued …

Part B: continued …

b) Disclosure

ERADICATE LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
Non-current assets				
Property, plant and equipment		5	0	210 000
Deferred tax			0	12 000
Non-current assets held for sale		6	282 500	0
Liabilities				
Deferred Tax			47 250	0

ERADICATE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Calculations	**20X3 C**	**20X2 C**
5	**Property, plant and equipment**			
	5.1 Plant			
	Net carrying amount: 1 January		210 000	400 000
	Gross carrying amount: 1 January		500 000	500 000
	Accumulated depreciation and impairment losses: 1 January		(290 000)	(100 000)
	(Impairment loss)/ reversal		(2 500)	(90 000)
	Depreciation		(17 500)	(100 000)
	Classified as held for sale		(190 000)	0
	Net carrying amount: 31 December		0	210 000
	Gross carrying amount: 31 December		0	500 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(290 000)
6	**Non-current assets held for sale**			
	6.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		190 000	0
	Increase/ (decrease) in fair value less costs to sell - (impairment loss)/ reversal	*100 000 limited to (90 000 + 2 500)*	92 500	
	Net carrying amount: 31 December		282 500	0

A decision to dispose the plant was taken on the 1st April 20X3 because of…….It is expected that this asset will be sold for cash and that the sale will be completed by …..(date). The asset is presented as part of the manufacturing segment. – see part A.

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant (IAS 16)	17 500	100 000
• Impairment loss (reversed) - plant (IAS 36)	2 500	90 000
• Impairment loss (reversed) - asset held for sale (IFRS 5)	(92 500)	0

Solution 21.1 continued …

Part B: continued …

WORKINGS

W1. Deferred tax table

		CA	TB	TD	DT	
Opening balance	**X1**	**0**	**0**	**0**	**0**	
Purchase		500 000	500 000	0	0	
Depreciation/ W&T		(100 000)	(125 000)	(25 000)	(7 500)	Cr DT; Dr TE
Closing balance	**X1**	**400 000**	**375 000**	**(25 000)**	**(7 500)**	**L**
Depreciation/ W&T		(100 000)	(125 000)	(25 000)	(7 500)	Cr DT; Dr TE
Impairment (IAS 36)		(90 000)	0	90 000	27 000	Dr DT; Cr TE
Closing balance	**X2**	**210 000**	**250 000**	**40 000**	**12 000**	**A**
Depreciation/ W&T		(17 500)	(125 000)	(107 500)	(32 250)	Cr DT; Dr TE
Impairment (IAS 36)		(2 500)	0	2 500	750	Dr DT; Cr TE
Non-current asset HFS		190 000				
Impairment reversed (IFRS 5)		92 500	0	(92 500)	(27 750)	Cr DT; Dr TE
Closing balance	**X3**	**282 500**	**125 000**	**(157 500)**	**(47 250)**	**L**

Explanation: 92 500
IFRS 5.21 limits a reversal of impairment loss to the cumulative prior impairment losses. This means that the FV – Cost to sell of 290 000 is limited by the previous accumulated losses of 92 500 (90 000 + 2 500). The carrying amount can only be increased to 282 500 (190 000 + 92 500).

Solution 21.2

Part A:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
31 December 20X2		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Impairment loss – plant	90 000	
Plant: accumulated impairment losses		90 000
Impairment of plant at year end:		
CA: (500 000 – 200 000) – RA: 210 000		
31 March 20X3		
Depreciation – plant	17 500	
Plant: accumulated depreciation		17 500
Depreciation of plant: 210 000 / 3 years remaining x 3/12		
Plant: accumulated impairment losses	7 500	
Impairment loss reversed – plant		7 500
Reversal of impairment of plant before reclassification:		
*CA: (210 000 – 17 500) – RA: 200 000 (**higher** of value in use: 200 000 and fair value less costs to sell: 200 000 – 10 000)*		
Non-current asset held for sale *(balancing)*	200 000	
Plant: accum depr & imp loss	300 000	
(100 000 + 100 000 + 90 000 + 17 500 – 7 500)		
Plant: cost *(given)*		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
Impairment loss – non-current asset held for sale	10 000	
Non-current asset held for sale		10 000
Impairment of non-current asset held for sale on reclassification:		
Lower of CA: (200 000) and Fair value less costs to sell: (200 000 – 10 000)		
31 December 20X3		
Impairment loss – non-current asset held for sale	20 000	
Non-current asset held for sale		20 000
Re-measurement of asset 'held for sale' at year end:		
Previous FV less costs to sell (200 000 – 10 000) decreased to the latest FV less costs to sell (180 000 – 10 000); decrease of 20 000		

Solution 21.2 continued …

Part A: continued …

b) Disclosure

OUTAHERE LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
Non-current assets				
Property, plant and equipment		5	0	210 000
Non-current assets held for sale		6	170 000	0

OUTAHERE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Calculations	**20X3 C**	**20X2 C**
5	**Property, plant and equipment**			
	5.1 Plant			
	Net carrying amount: 1 January		210 000	400 000
	Gross carrying amount: 1 January		500 000	500 000
	Accumulated depreciation and impairment losses: 1 January		(290 000)	(100 000)
	(Impairment loss)/ reversal		7 500	(90 000)
	Depreciation		(17 500)	(100 000)
	Classified as held for sale		(200 000)	0
	Net carrying amount: 31 December		0	210 000
	Gross carrying amount: 31 December		0	500 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(290 000)
6	**Non-current assets held for sale**			
	6.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		200 000	0
	Increase/ (decrease) in fair value less costs to sell - (impairment loss)/ reversal	*10 000 + 20 000*	(30 000)	
	Net carrying amount: 31 December		170 000	0

A decision was taken on 1 April 20X3 to dispose of the plant because of ….
It is expected to be sold for cash and that the sale will be completed by … (date).
This asset is presented in the …. segment.

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant (IAS 16)	17 500	100 000
• Impairment loss / (reversed) - plant (IAS 36)	(7 500)	90 000
• Impairment loss – non-current asset held for sale (IFRS 5)	30 000	0

Solution 21.2

Part B:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Tax expense	7 500	
Deferred tax		7 500
Deferred tax adjustment – see deferred tax table		
31 December 20X2		
Depreciation	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Impairment loss	90 000	
Plant: accumulated impairment losses		90 000
Impairment of plant at year end:		
CA: (500 000 – 200 000) – RA: 210 000		
Deferred tax	19 500	
Tax expense		19 500
Deferred tax adjustment – see deferred tax table (27 000 – 7 500)		
31 March 20X3		
Depreciation	17 500	
Plant: accumulated depreciation		17 500
Depreciation of plant: 210 000 / 3 years remaining x 3/12		
Plant: accumulated impairment losses	7 500	
Impairment loss reversed		7 500
*Reversal of impairment of plant **before** reclassification:CA: (210 000 – 17 500) – RA: 200 000 (**higher** of value in use: 200 000 and fair value less costs to sell: 200 000 – 10 000)*		
Non-current asset held for sale *(balancing)*	200 000	
Plant: accum depr & imp loss	300 000	
(100 000 + 100 000 + 90 000 + 17 500 – 7 500)		
Plant: cost *(given)*		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
Impairment loss – non-current asset held for sale	10 000	
Non-current asset held for sale		10 000
Impairment of non-current asset held for sale:		
Lower of CA: (200 000) and Fair value less costs to sell: (200 000 – 10 000)		
Tax expense	25 500	
Deferred tax		25 500
Deferred tax adjustment – see deferred tax table:		
(32 250 + 2 250 – 3 000 – 6 000)		
31 December 20X3		
Impairment loss – non-current asset held for sale	20 000	
Non-current asset held for sale		20 000
Re-measurement of asset 'held for sale' at year end:Previous FV less costs to sell (200 000 – 10 000) decreased to the latest FV less costs to sell (180 000 – 10 000); decrease of 20 000		

Solution 21.2 continued …

Part B: continued …

b) Disclosure

OUTAHERE LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
Non-current assets				
Property, plant and equipment		5	0	210 000
Deferred Tax			0	12 000
Non-current assets held for sale		6	170 000	0
Liabilities				
Deferred Tax			13 500	0

OUTAHERE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

	Calculations	**20X3 C**	**20X2 C**
5 Property, plant and equipment			
5.1 Plant			
Net carrying amount: 1 January		210 000	400 000
Gross carrying amount: 1 January		500 000	500 000
Accumulated depreciation and impairment losses: 1 Jan		(290 000)	(100 000)
(Impairment loss)/ reversal		7 500	(90 000)
Depreciation		(17 500)	(100 000)
Classified as held for sale		(200 000)	0
Net carrying amount: 31 December		0	210 000
Gross carrying amount: 31 December		0	500 000
Accumulated depreciation and impairment losses: 31 Dec		0	(290 000)
6 Non-current assets held for sale			
6.1 Plant			
Net carrying amount: 1 January		0	0
Transfer from property, plant and equipment		200 000	0
Increase/ (decrease) in fair value less costs to sell - (impairment loss)/ reversal	*10 000 + 20 000*	(30 000)	
Net carrying amount: 31 December		170 000	0

A decision to dispose the plant was taken on the 1st April 20X3 because of…….It is expected that this asset will be sold for cash and that the sale will be completed by …..(date). The asset is presented as part of the manufacturing segment.

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant (IAS 16)	17 500	100 000
• Impairment loss / (reversed) - plant (IAS 36)	(7 500)	90 000
• Impairment loss – non-current asset held for sale (IFRS 5)	30 000	0

Solution 21.2 continued …

Part B: continued …

WORKINGS

Deferred tax table

	Year	CA	TB	TD	DT	
Opening balance	**X1**	**0**	**0**	**0**	**0**	
Purchase		500 000	500 000	0	0	
Depreciation/ W&T		(100 000)	(125 000)	(25 000)	(7 500)	Cr DT; Dr TE
Closing balance	**X1**	**400 000**	**375 000**	**(25 000)**	**(7 500)**	**L**
Depreciation/ W&T		(100 000)	(125 000)	(25 000)	(7 500)	Cr DT; Dr TE
Impairment (IAS 36)		(90 000)	0	90 000	27 000	Dr DT; Cr TE
Closing balance	**X2**	**210 000**	**250 000**	**40 000**	**12 000**	**A**
Depreciation/ W&T		(17 500)	(125 000)	(107 500)	(32 250)	Cr DT; Dr TE
Imp reversed (IAS 36)		7 500	0	(7 500)	(2 250)	Cr DT; Dr TE
Pre-classification as HFS		200 000				
Impairment (IFRS 5)		(10 000)	0	10 000	3 000	Dr DT; Cr TE
Non-current asset HFS		190 000				
Impairment (IFRS 5)		(20 000)	0	20 000	6 000	Dr DT; Cr TE
Closing balance	**X3**	**170 000**	**125 000**	**(45 000)**	**(13 500)**	**L**

Solution 21.3

a)

	Debit	Credit
1 January 20X5		
Machine: cost	250 000	
Bank/ creditors		500 000
Purchase of machine		
31 December 20X5		
Depreciation – machine	50 000	
Machine: accumulated depreciation		50 000
Depreciation of machine: 250 000 / 5 years		
Tax expense	3 750	
Deferred tax		3 750
Deferred tax adjustment – see DT table		
31 December 20X6		
Depreciation – machine	50 000	
Machine: accumulated depreciation		50 000
Depreciation of machine: 250 000 / 5 years		
Impairment loss – machine	45 000	
Machine: accumulated impairment losses		45 000
Impairment of machine at year end:		
CA: (250 000 – 100 000) – RA: 105 000		
Deferred tax	9 750	
Tax expense		9 750
Deferred tax adjustment – see DT table		
31 March 20X7		
Depreciation – machine	8 750	
Machine: accumulated depreciation		8 750
Depreciation of machine: 105 000 / 3 years remaining x 3/12		
Impairment loss – machine	1 250	
Machine: accumulated impairment loss		1 250
*Impairment of machine **before** reclassification IAS 36 p8: CA: 96 250 – RA: 95 000 (FV-CtS 95 000 > VIU 90 000)*		
Non-current asset held for sale (balancing)	95 000	
Machine: accumulated impairment losses (45 000 + 1 250)	46 250	
Machine: accumulated depreciation (50 000 + 50 000 + 8 750)	108 750	
Machine: cost (given)		250 000
Transfer of machine to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
31 December 20X7		
Non-current asset held for sale	46 250	
Impairment loss reversed – non-current asset held for sale		46 250
IFRS 5 (p 21): Re-measurement of asset 'held for sale' at yr end: Previous FV less costs to sell (95 000) increased to the latest FV less costs to sell (145 000); increase of 50 000 limited to prior cumulative impairment losses of (45 000 + 1 250)		
Tax Expense	29 625	
Deferred tax liability		29 625
Deferred tax adjustment – see DT table		

Solution 21.3 continued …

b)

JOVIAL LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X7

	Calculations	**Notes**	**20X7 C**	**20X6 C**
Non-current assets				
Property, plant and equipment		5	0	105 000
Deferred tax			0	6 000
Non-current assets held for sale		6	141 250	0
Liabilities				
Deferred tax			23 625	0

JOVIAL LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X7

		Calculations	**20X7 C**	**20X6 C**
5	**Property, plant and equipment**			
	5.1 Machine			
	Net carrying amount: 1 January		105 000	200 000
	Gross carrying amount: 1 January		250 000	250 000
	Accumulated depreciation and impairment losses: 1 January		(145 000)	(50 000)
	(Impairment loss)/ reversal		(1 250)	(45 000)
	Depreciation		(8 750)	(50 000)
	Classified as held for sale		(95 000)	0
	Net carrying amount: 31 December		0	105 000
	Gross carrying amount: 31 December		0	250 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(145 000)
6	**Non-current assets held for sale**			
	6.1 Machine			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		95 000	0
	Increase/ (decrease) in fair value less costs to sell - (impairment loss)/ reversal	*50 000 limited to (45 000 + 1 250)*	46 250	
	Net carrying amount: 31 December		141 250	0

A decision to dispose the plant was taken on the 1st April 20X7 because of…….It is expected that this asset will be sold for cash and that the sale will be completed by …..(date). The asset is presented as part of the manufacturing segment.

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – machine	8 750	50 000
• Impairment loss – machine (IAS 36)	1 250	45 000
• Impairment loss reversed – non current asset held for sale (IFRS 5)	(46 250)	0

Solution 21.3 continued …

W1. Deferred tax table

		CA	TB	TD	DT	
Opening balance	**X5**	**0**	**0**	**0**	**0**	
Purchase		250 000	250 000	(12 500)	(3 750)	Cr DT; Dr TE
Depreciation/ W&T		(50 000)	(62 500)			
Closing balance	**X5**	**200 000**	**187 500**	**(12 500)**	**(3 750)**	**L**
Depreciation/ W&T		(50 000)	(62 500)	32 500	9 750	Dr DT; Cr TE
Impairment (IAS 36)		(45 000)	0			
Closing balance	**X6**	**105 000**	**125 000**	**20 000**	**6 000**	**A**
Depreciation/ W&T		(8 750)	(62 500)			
Impairment (IAS 36)		(1 250)	0	(98 750)	(29 625)	Cr DT; Dr TE
Non-current asset HFS		95 000				
Impairment reversed (IFRS 5)		* 46 250	0			
Closing balance	**X7**	**141 250**	**62 500**	**(78 750)**	**(23 625)**	**L**

*: 145 000 – 95 000 = 50 000, limited to previous impairment losses: 45 000 + 1 250 = 46 250

Solution 21.4

Part A

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
1 January 20X2		
Plant: accumulated depreciation	100 000	
Plant: cost		100 000
Net method: set off accumulated depreciation against cost before revaluation		
Plant: cost	400 000	
Revaluation surplus		400 000
Revaluation surplus: FV 800 000 – CA (500 000 – 100 000)		
31 December 20X2		
Depreciation	200 000	
Plant: accumulated depreciation		200 000
Depreciation of plant: 800 000 / 4 years remaining		
31 March 20X3		
Depreciation	50 000	
Plant: accumulated depreciation		50 000
Depreciation of plant: 800 000 / 4 years remaining x 3/12		
Plant: accumulated depreciation	250 000	
Plant: cost		250 000
Net method: set off accumulated depreciation against cost before revaluation: 200 000 + 50 000		
Revaluation surplus	50 000	
Plant: cost		50 000
Revaluation to FV before reclassification as 'held for sale': *Revaluation surplus: FV 500 000 – CA (800 000 – 250 000)*		
Non-current asset held for sale	500 000	
Plant: cost (500 000 – 100 000 + 400 000 – 250 000 – 50 000)		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
Impairment loss – non-current asset held for sale	50 000	
Non-current asset held for sale		50 000
Re-measurement on reclassification as 'held for sale': *Lower of CA (500 000) or FV less costs to sell (500 000 – 50 000)*		
31 December 20X3		
Non-current asset held for sale	50 000	
Impairment loss reversed – non-current asset held for sale		50 000
Re-measurement of asset 'held for sale' at year end: *Previous FV less costs to sell (450 000) increased to the latest FV less costs to sell (700 000 – 40 000); increase of 210 000 limited to prior cumulative impairment losses of 50 000*		

Solution 21.4 continued …

Part A: continued …

b) Disclosure

TOSSOUT LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
Non-current assets				
Property, plant and equipment		5	0	600 000
Non-current assets held for sale		6	500 000	0

TOSSOUT LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Calculations	**20X3 C**	**20X2 C**
5	**Property, plant and equipment**			
	5.1 Plant			
	Net carrying amount: 1 January		600 000	400 000
	Gross carrying amount: 1 January		800 000	500 000
	Accumulated depreciation and impairment losses: 1 January		(200 000)	(100 000)
	Increase/ (decrease) in value through			
	- revaluation surplus		(50 000)	400 000
	- (impairment loss)/ reversal			
	Depreciation		(50 000)	(200 000)
	Classified as held for sale		(500 000)	0
	Net carrying amount: 31 December		0	600 000
	Gross carrying amount: 31 December		0	800 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(200 000)
	Carrying amount based on the cost model		0	300 000
6	**Non-current assets held for sale**			
	6.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		500 000	0
	Increase/ (decrease) in fair value less costs to sell			
	- (impairment loss)/ reversal	*(50 000 – 50 000)*	0	
	Net carrying amount: 31 December		500 000	0

A decision was taken on 1 April 20X3 to dispose of the plant because of ….
It is expected to be sold for cash and that the sale will be completed by … (date).
A total impairment loss of C50 000 was recognised on initial classification of the asset as held for sale. This was reversed on subsequent re-measurement at year-end. These amounts are included in 'other expenses' on the face of the statement of comprehensive income.
This asset is presented in the …. segment.

Solution 21.4 continued …

Part A: continued …

b) Disclosure continued …

TOSSOUT LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3 continued …

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant	50 000	200 000
• Impairment loss - non-current asset held for sale (IFRS 5) *(50 000 – 50 000)*	0	0

Solution 21.4

Part B:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
Tax Expense	7 500	
Deferred tax		7 500
Deferred tax adjustment – see deferred tax table		
1 January 20X2		
Plant: accumulated depreciation	100 000	
Plant: cost		100 000
Net method: set off acc. deprec. against cost before revaluation		
Plant: cost	400 000	
Revaluation surplus		400 000
Revaluation surplus	120 000	
Deferred tax		120 000
Revaluation surplus: [FV800 000 – CA(500 000–100 000)] & [400Kx 30%]		
31 December 20X2		
Depreciation	200 000	
Plant: accumulated depreciation		200 000
Depreciation of plant: 800 000 / 4 years remaining		
Deferred tax	22 500	
Tax expense		22 500
Deferred tax adjustment – see deferred tax table		
31 March 20X3		
Depreciation	50 000	
Plant: accumulated depreciation		50 000
Depreciation of plant: 800 000 / 4 years remaining x 3/12		
Tax Expense	22 500	
Deferred tax		22 500
Deferred tax adjustment – see deferred tax table [22 500+ 15 000 – 15 000]		
Plant: accumulated depreciation	250 000	
Plant: cost		250 000
Net method: set off acc. depr. against cost before revaluation: 200K + 50K		
Revaluation surplus	50 000	
Plant: cost		50 000
Deferred tax	15 000	

Revaluation surplus	15 000
Revaluation to FV before reclassification as 'held for sale':Revaluation surplus: [FV: 500 000 – CA: (800 000 – 250 000)]& [50 000 x 30%]	

Solution 21.4 continued …

Part B: continued …

a) Journals continued …

	Debit	Credit
31 March 20X3 continued …		
Non-current asset held for sale	500 000	
Plant: cost (500 000 – 100 000 + 400 000 – 250 000 – 50 000)		500 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
Impairment loss – non-current asset held for sale	50 000	
Non-current asset held for sale		50 000
Re-measurement on reclassification as 'held for sale': Lower of CA (500 000) or FV less costs to sell (500 000 – 50 000)		
31 December 20X3		
Non-current asset held for sale	50 000	
Impairment loss reversed - non-current asset held for sale		50 000
Re-measurement of asset 'held for sale' at year end: Previous FV less costs to sell (450K) increased to the latest FV less costs to sell (700K–40K); increase of 210 000 limited to prior cumulative impairment losses of 50 000		

Solution 21.4 continued …

Part B: continued …

b) Disclosure

TOSSOUT LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

			20X3	20X2
ASSETS	*Calculations*	**Notes**	**C**	**C**
Non-current assets				
Property, plant and equipment		8	0	600 000
Non-current assets held for sale		9	500 000	0
EQUITY AND LIABILITIES				
Equity				
Revaluation surplus			0	280 000
Revaluation surplus relating to non-current assets held for sale	*(280 000 – 35 000)*		245 000	0
Non-current liabilities				
Deferred tax			112 500	105 000

TOSSOUT LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		20X3	20X2
	Calculations	**C**	**C**
7	**Profit before tax**		
	Profit before tax is stated after taking into account the following separately disclosable items:		
	• Depreciation – plant	50 000	200 000
	• Impairment loss / (reversed) - non-current asset held for sale (IFRS 5) *(50 000 – 50 000)*	0	0
8	**Property, plant and equipment**		
	8.1 Plant		
	Net carrying amount: 1 January	600 000	400 000
	Gross carrying amount: 1 January	800 000	500 000
	Accumulated depreciation and impairment losses: 1 January	(200 000)	(100 000)
	Increase/ (decrease) in value through		
	- revaluation surplus	(50 000)	400 000
	Depreciation	(50 000)	(200 000)
	Classified as held for sale	(500 000)	0
	Net carrying amount: 31 December	0	600 000
	Gross carrying amount: 31 December	0	800 000
	Accumulated depreciation and impairment losses: 31 Dec	0	(200 000)
	Carrying amount based on the cost model	0	300 000

Solution 21.4 continued …

Part B: continued …

b) Disclosure continued …

TOSSOUT LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3 continued …

		Calculations	20X3 C	20X2 C
9	**Non-current assets held for sale**			
	9.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		500 000	0
	Increase/ (decrease) in fair value less costs to sell - (impairment loss)/ reversal	*(50 000 – 50 000)*	0	
	Net carrying amount: 31 December		500 000	0

A decision to dispose the plant was taken on the 1st April 20X3 because of…….It is expected that this asset will be sold for cash and that the sale will be completed by …..(date).

A total impairment loss of C50 000 was recognised on initial classification of the asset as held for sale. The C50 000 impairment was reversed on subsequent re-measurement at the year end. These amounts have been included under "other expenses" on the face of the statement of comprehensive income.

The asset is presented as part of the manufacturing segment.

WORKINGS

Deferred tax table

		CA	TB	TD	DT	
Opening balance	**X1**	**0**	**0**	**0**	**0**	
Purchase		500 000	500 000	0	0	
Depreciation/ W&T		(100 000)	(125 000)	(25 000)	(7 500)	Cr DT; Dr TE
Closing balance	**X1**	**400 000**	**375 000**	**(25 000)**	**(7 500)**	**L**
Revaluation surplus		400 000	0	(400 000)	(120 000)	Cr DT; Dr RS
		800 000				
Depreciation/ W&T		(200 000)	(125 000)	75 000	22 500	Dr DT; Cr TE
Closing balance	**X2**	**600 000**	**250 000**	**(350 000)**	**(105 000)**	**L**
Depreciation/ W&T		(50 000)	(125 000)	(75 000)	(22 500)	Cr DT; Dr TE
		550 000				
Devaluation (RS)		(50 000)	0	50 000	15 000	Dr DT; Cr RS
Pre-classification as HFS		500 000				
Impairment (IFRS 5)		(50 000)	0	50 000	15 000	Dr DT; Cr TE
Non-current asset HFS		450 000				
Imp reversed (IFRS 5)		50 000	0	(50 000)	(15 000)	Cr DT; Dr TE
Closing balance	**X3**	**500 000**	**125 000**	**(375 000)**	**(112 500)**	**L**

Solution 21.5

Part A:

a) Journals

	Debit	Credit
1 January 20X1		
Plant: cost	500 000	
Bank/ creditors		500 000
Purchase of plant		
31 December 20X1		
Depreciation – plant	100 000	
Plant: accumulated depreciation		100 000
Depreciation of plant: 500 000 / 5 years		
1 January 20X2		
Plant: accumulated depreciation	100 000	
Plant: cost		100 000
Net method: set off accumulated depreciation against cost before revaluation		
Plant: cost	400 000	
Revaluation surplus		400 000
Revaluation surplus: FV 800 000 – CA (500 000 – 100 000)		
31 December 20X2		
Depreciation – plant	200 000	
Plant: accumulated depreciation		200 000
Depreciation of plant: 800 000 / 4 years remaining		
31 March 20X3		
Depreciation – plant	50 000	
Plant: accumulated depreciation		50 000
Depreciation of plant: 800 000 / 4 years remaining x 3/12		
Plant: accumulated depreciation	250 000	
Plant: cost		250 000
Net method: set off accumulated depreciation against cost before revaluation: 200 000 + 50 000		
Plant: cost	100 000	
Revaluation surplus		100 000
Revaluation to FV before reclassification as 'held for sale': Revaluation surplus: FV 650 000 – CA (800 000 – 250 000)		
Non-current asset held for sale	650 000	
Plant: cost (500 000 – 100 000 + 400 000 – 250 000 + 100 000)		650 000
Transfer of plant to non-current asset held for sale at the carrying amount calculated in accordance with IAS 16 and IAS 36		
Impairment loss – non-current asset held for sale	50 000	
Non-current asset held for sale		50 000
Re-measurement of asset held for sale immed. after classification: Lower of CA (650 000) or FV less costs to sell (650 000 – 50 000)		
31 December 20X3		
Impairment loss – non-current asset held for sale	130 000	
Non-current asset held for sale		130 000
Re-measurement of asset held for sale:at year end: Previous FV less costs to sell (600 000) decreased to the latest FV less costs to sell (500 000 – 30 000)		

Solution 21.5 continued …

Part A: continued …

b) Disclosure

CUTAWAY LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X3

	Calculations	**Notes**	**20X3 C**	**20X2 C**
ASSETS				
Non-current assets				
Property, plant and equipment		5	0	600 000
Non-current assets held for sale		**6**	**470 000**	**0**
EQUITY AND LIABILITIES				
Revaluation surplus			500 000	400 000

CUTAWAY LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Calculations	**20X3 C**	**20X2 C**
5	**Property, plant and equipment**			
	5.1 Plant			
	Net carrying amount: 1 January		600 000	400 000
	Gross carrying amount: 1 January		800 000	500 000
	Accumulated depreciation and impairment losses: 1 January		(200 000)	(100 000)
	Increase/ (decrease) in value through			
	- revaluation surplus		100 000	400 000
	Depreciation		(50 000)	(200 000)
	Classified as held for sale		(650 000)	0
	Net carrying amount: 31 December		0	600 000
	Gross carrying amount: 31 December		0	800 000
	Accumulated depreciation and impairment losses: 31 Dec		0	(200 000)
	Carrying amount based on the cost model		0	300 000
6	**Non-current assets held for sale**			
	6.1 Plant			
	Net carrying amount: 1 January		0	0
	Transfer from property, plant and equipment		650 000	0
	Increase/ (decrease) in fair value less costs to sell			
	- (impairment loss)/ reversal	*(50 000 + 130 000)*	(180 000)	
	Net carrying amount: 31 December		470 000	0

A decision was taken on 1 April 20X3 to dispose of the plant because of ….
It is expected to be sold for cash and that the sale will be complete by … (date).
A total impairment loss of C50 000 was recognised on initial classification of the asset as held for sale. A further loss of C130 000 was recognised on subsequent re-measurement at year-end. These losses are included in 'other expenses' on the face of the statement of comprehensive income.
This asset is presented in the …. segment.

Solution 21.5 continued …

Part A: continued …

b) Disclosure continued …

CUTAWAY LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X3 continued ….

10 Profit before tax

Profit before tax is stated after taking into account the following separately disclosable items:

• Depreciation – plant	50 000	200 000
• Impairment loss – non-current asset held for sale (IFRS 5) *(50 000 + 130 000)*	180 000	0

Solution 21.6

IFRS 5 describes a *component* of an entity as one that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

IFRS 5 defines a discontinued operation as a component of an entity that either ***has been disposed of***, or is ***classified as held for sale***, and

(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) a subsidiary acquired exclusively with a view to resale.

The tyre-manufacturing unit of Bettenwood Limited is a separate cash-generating unit and therefore a component of the company. It represents a separate major line of business and geographical area of operation, being located in Richards Bay.

Since the tyre-manufacturing unit has not yet been disposed of at 31 October 20X1 (financial year end), it must first be classified as held for sale in order to be classified as a discontinued operation.

An entity shall classify a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use (IFRS 5 p6).

For this to be the case, the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and its sale must be *highly probable*.

Mr. Schuma, the MD of Bettenwood Limited, announced that negotiations to sell the entire tyre manufacturing division had been entered into with Suba Limited as part of the implementation of the disposal plan. This reveals the fact that:

- the appropriate level of management is committed to a plan to sell the disposal group;
- an active programme to locate a buyer and complete the plan must have been initiated by 25 August 20X1; and
- the price should be reasonable in relation to its current fair value due to negotiations being held.

Further, given the publicity surrounding the plan, it could be assumed that it is likely that the plan will not be withdrawn or materially altered. The sale is also expected to be made within a few months and thus, it should qualify for recognition as a completed sale within one year from the date of classification

On the 15th July 20X1, although a decision had been reached in principle to discontinue the division, no formal plan had been composed setting out the procedures of the sale. The above-mentioned facts reveal that the sale is "immediate" and highly probably and that the disposal group should therefore be classified as "held for sale" and consequently as a discontinued operation from 25 August 20X1.

Solution 21.7

a) The initial date on which information on the discontinued operation will be disclosed for the first time, is the earlier of either the date of disposal or the date the component (disposal group) was classified as held for sale.

To be classified as held for sale, the following criteria must be met:

- Appropriate management must be committed to a plan for selling the asset
- A buyer must be actively sought
- The disposal group must be marketed at a reasonable price (fair value)
- The sale must be expected to be completed and recognised within one year from date of commitment
- There must be no intention to withdraw or change the plan of sale

On 18 December 20X6 the board formally decided to sell the soccer ball division to a large sporting goods manufacturer (buyer) at a fair price and within a reasonable time frame. The sale is therefore highly probable on the 18 December 20X6 and the discontinued operation should therefore be disclosed from that date.

b) Evergreen Ltd will have to redraft the statement of comprehensive income and the statement of cash flows for the current year to present the information on the discontinued operation separately from the continuing operations as per IFRS 5 para 33. Comparatives should also be divided between continuing and discontinued operations (para 34).

In the statement of financial position, Evergreen Ltd will need to disclose the assets held for sale and any associated equity (eg revaluation surplus) and associated liabilities separately from other assets, equity and liabilities as required per IFRS 5 para 38. Comparatives are not necessary for a reclassification of assets in the statement of financial position (para 40).

Solution 21.7 continued …

c)

EVERGREEN LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X6

IAS 1 p 117 **2. Accounting policies**

2.5 Assets held for sale
Non current assets and disposal groups are classified as held for sale when the inflow of economic benefits inherent in those assets are expected to be derived primarily through sale rather than use and the sale is highly probable. (The assets must be available for immediate sale subject only to terms and delays customary for sales of the type in question)

2.6 Discontinued operations
An entity presents the results of its operations as a discontinued operation when the operation represents a component of the entity that has been classified as held for sale or disposed of. Comparatives are restated in this regard.

35. Discontinued operations:

		20X6	20X5
p38	*Non-current assets held for sale*		
	Property, plant and equipment	1 695	
	Accounts Receivable	120	
	Inventory	600	
		2415	
	Bank Overdraft	(750)	
	Total per statement of financial position	1665	

p33 (b)	*Analysis of loss on discontinued operation*		
			p34
p33(b)(i)	Revenue	3 750	XX
p33(b)(i)	Expenses	(4 335)	XX
p33(b)(i)	Loss before tax	(585)	XX
p33(b)(ii)	Income tax expense	(75)	XX
	Loss for the period from discontinued operations	(660)	XX

p41 A decision to dispose of the soccer ball division was taken on 18 December 20X6 because the division was no longer profitable. It is expected that this division will be sold for cash and that the sale will be completed by the end of April 20X7.

Solution 21.8

a)

MANDOS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X8 (extract)

		Note	20X8 C
Discontinued operations		25	
Revenue	*Given*		1 180 000
Expenses	*W1*		(1 264 200)
Loss before tax			(84 200)
Income tax (income)	*W4*		27 360
Loss after tax			(56 840)
Gain after tax from re-measurement (impairment)			77 000
Loss from re-measuring the asset to fair value less costs to sell			(2 000)
Gain on disposal of asset: (420 000 – 305 000)			115 000
Net gain before tax			113 000
Income tax expense	*W4*		(36 000)
Profit for the period from discontinued operations			20 160
Profit for the period			XXX
Other comprehensive income			0
Total comprehensive income			XXX

Solution 21.8 continued …

b)

MANDOS LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X8 (EXTRACTS)

2. Accounting policies

2.10 Assets held for sale
Non current assets and disposal groups are classified as held for sale when the inflow of economic benefits inherent in those assets are expected to be derived primarily through sale rather than use and the sale is highly probable. (The assets must be available for immediate sale subject only to terms and delays customary for sales of the type in question)

2.11 Discontinued operations
An entity presents the results of its operations as a discontinued operation when the operation represents a component of the entity that has been classified as held for sale or disposed of.
Comparatives are restated in this regard

25 Discontinuing operations

On 29 November 20X5 the board of directors approved and announced a plan to dispose of its operations in Zimbabwe, by selling the assets through several transactions.

This division was previously reported in the Zimbabwe segment.

The company decided to dispose of its operations in Zimbabwe because profits have decreased as a result of economic and political uncertainty.

Non current assets classified as held for sale include furniture (C32 000) and buildings (C600 000).

The process of disposing of the Zimbabwe division is expected to be completed by …… (date).

The company recognised a provision for employee compensation of C90 000 (before income tax benefit of C27 000) to be paid during March 20X9 to employees whose jobs will be terminated as a result of the discontinuance of operations in Zimbabwe.

Solution 21.8 continued …

Workings

W1: Total expenses		**C**
Other expenses	Given	1 106 400
Doubtful debt	43 000 - 39 600	3 400
Inventory write-down	64 000 - 59 000	5 000
Depreciation	[(600 000 - 360 000) / 4 x 11/12] + [(48 000 – 38 400) / 2 x 11 /12]	59 400
Compensation costs		90 000
		1 264 200

W2: Current normal tax calculation		**C**	**Tax at 30%**
Loss before tax	1 180 000 – 1 264 200	(84 200)	
Add depreciation	W2: 55 000 + 4 400	59 400	
Less wear and tear	W2: 60 000 + 4 800	(64 800)	
Add compensation costs		90 000	
		400	120

W3: Deferred tax calculation

Equipment	**CA**	**TB**	**TD**	**Deferred tax**	**Journal entries**
Equipment 1 January 20X8 (600 000 / 10 years x 6 years)	360 000	360 000	0	0	
Depreciation: 600 000 / 10 x 11 /12	(55 000)	(60 000)	(5 000)	(1 500)	Dr TE, Cr DTL
	305 000	300 000			
Sale	305 000	300 000	5 000	1 500	Dr DTL, Cr TE
Equipment 31 December 20X8	0	0	0	0	

Furniture					
Furniture 1 January 20X8 (48 000 / 10 years x 8 years)	38 400	38 400	0	0	
Depreciation: 48 000 / 10 x 11/12	(4 400)	(4 800)	(400)	(120)	Dr TE, Cr DTL
Furniture classified as HFS	34 000	33 600			
IFRS 5 Impairment (balancing)	(2 000)	0	2 000	600	Dr DTL, Cr TE
Furniture 31 December 20X8 (given)	32 000	33 600	1 600	480	Asset

Provision for compensation to employees					
1 January 20X8	0	0	0	0	
Compensation costs	(90 000)	0	90 000	27 000	Dr DTA, Cr TE
31 December 20X8	(90 000)	0	90 000	27 000	

Solution 21.8 continued …

Workings continued . .

W4: Separate disclosure of tax

Tax relating to discontinued operations		(27 360)
Current Tax	W2	120
Deferred Tax	W3: 27 000 – 120 + 600	(27 480)
Tax relating to disposal gains/losses and impairments/ reversals of impairments		36 000
Current Tax	W5	36 000
Deferred Tax		-
Total tax		8 640

W5: Taxation on disposal

Poceeds	420 000
Less:	
Tax base	(300 000)
	120 000
Tax @ 30%	36 000

Deferred taxation is nil as asset is sold

Solution 21.9

a)

The division was classified as held for sale at the date that the following was met:

'The disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and its sale must be highly probable.' (IFRS 5, p7-10).

For the sale to be highly probable, it must meet the following requirements:

- the ***appropriate level of management*** is ***committed to a plan*** to sell the disposal group;
- an active programme to ***locate a buyer*** and complete the plan must have been initiated;
- the price should be reasonable in relation to its current fair value; and
- the sale should be made within one year of classification as held for sale;
- there should be evidence that management intend to complete the plan as it stands. (i.e. with no significant changes to or withdrawal from the plan).

The division (disposal group) should thus be classified as held for sale on the 30th June 20X1, as this is the date where all of the above requirements were met:

- A formal plan was approved by the directors, and
- The division was expected to be sold within 6 months

As the division was sold with in 6 months, it seems that an active program to locate a buyer have been initiated at that date and the price quoted was reasonable in relation to its fair value.

Solution 21.9 continued…

b)

TOYS AREN'T US LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X1

	Note	20X1 C	20X0 C
Continuing operations			
Revenue		7 500 000	XX
Cost of sales		(2 250 000)	(XX)
Gross profit		5 250 000	XXX
Operating expenses		(750 000)	(XX)
Profit before tax		4 500 000	XXX
Income tax expense	50	(1 350 000)	(XX)
Profit for the period from continuing operations		3 150 000	XXX
Discontinued operations	48		
Revenue	*P33(b)(i)*	75 000	XX
Other expenses[1]	*P33(b)(i)*	(77 500)	(XX)
Profit/(Loss) before tax	*P33(b)(i)*	(2 500)	XXX
Income tax expense *(W2: all current tax)*	*P33(b)(ii)*	(750)	(XX)
Loss after tax		(3 250)	
Loss after tax from re-measurement (impairment)		(2 450)	
Loss from re-measuring the disposal group to fair value less costs to sell (W3)	*P33(b)(iii)*	(3 500)[2]	
Income tax expense *(W1: all deferred tax)*	*P33(b)(iv)*	1 050[3]	
Loss for the period from discontinued operations		(5 700)	XXX
Profit for the period		3 144 300	XXX
Other comprehensive income		0	XXX
Total comprehensive income		3 144 300	XXX

Solution 21.9 continued…

b) continued …

ALTERNATE DISCLOSURE:

- **TOTAL ON FACE OF STATEMENT OF COMPREHENSIVE INCOME**
- **WITH A SUPPORTING NOTE**

TOYS AREN'T US LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X1

	Note	20X1 C	20X0 C
Continuing operations			
Revenue		7 500 000	XXX
Total expense (2 250 000 + 750 000)		(3 000 000)	(XXX)
Profit before tax		4 500 000	XXX
Income tax expense	50	(1 350 000)	(XXX)
Profit for the period from continuing operations		3 150 000	XXX
Discontinued operations			
Profit for the period from discontinued operations	48	(5 700)	
Profit for the period		3 144 300	XXX
Other comprehensive income		0	XXX
Total comprehensive income		3 144 300	XXX

TOYS AREN'T US LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 20X1

48. Analysis of profit for the period from discontinued operations

Revenue	75 000	XXX
Other expenses[1]	(77 500)	(XXX)
Profit/(loss) before tax	(2 500)	XXX
Income tax expense *(W2: all current tax)*	(750)	(XXX)
Loss after tax	(3 250)	
Loss after tax from re-measurement (impairment)	(2 450)	
Loss from re-measuring the disposal group to fair value less costs to sell	(3 500)[2]	
Income tax expense *(W1: all deferred tax)*	1 050[3]	
Loss for the period from discontinued operations	(5 700)	XXX

Solution 21.9 continued….

b) continued …

TOYS AREN'T US LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 20X1

48 Discontinued operation p41
A decision to dispose of the toys division was taken on the 30th June 20X1 because the division was no longer profitable. It is expected that this division will be sold for a net selling price of C54 000 and that the sale will be completed by the end of November 20X1.

50 Tax

	Continuing operations	Discontinued operations (note 1)
20X1	**C**	**C**
Normal tax		
• Current	1 350 000	750
• Deferred	-	(1 050)
Tax expense per statement of comprehensive income	1 350 000	(300)

Tax rate reconciliation

20X1		
Standard tax at 30%	1 350 000	(1 800) *
Provision for termination costs – not tax deductible in the future		1 500
Tax expense per statement of comprehensive income	1 350 000	(300)
Effective tax rate (Continuing:1 350 000/4 500 000) (Discontinuing: 300 000/ 6 000 000)	30%	5%

*: (loss from re-measurement: 3 500 + loss from discontinued operations: 2 500) x 30%
Note: The tax –"discont ops" includes tax on discont ops + tax on impmnt to FV- costs)

Explanatory notes:

[1] 50 000 (cost of sales) + 20 000 (other expenses-already includes depreciation upto date classified as HFS) + 5 000 (termination benefits expense)[4] + 1 250 (bad debt write-off) + 1 250 (obsolete inventory write-off) = 77 500

[2] Loss from re-measuring the disposal group to fair value less costs to sell refers to the impairment of the disposal group as a whole to FV – costs to sell: 57 500 – 54 000.

[3] The credit tax expense is as a result of a deferred tax asset that arose through a temporary difference relating to impairments.
If the toys division was a separate legal entity (company) then a deferred tax asset could only be accounted for to the extent of future probable taxable income. If however, the division forms a "branch" or "segment" of a single legal entity [as does this one], then the full deferred tax asset can be accounted for as it is then probable that future taxable income will be generated by the rest of the company.

[4] IAS 36(p28) lists some examples of disposal costs, viz. legal costs, stamp duty and similar transaction taxes (income taxes and finance costs excluded), costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.
However, termination benefits (as defined in IAS 19 Employee Benefits) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Solution 21.9 continued….

b) continued …

Workings

W1: Deferred normal tax

Equipment	CA	TB	TD	Def tax	
Balance: 1 October 20X0 *(47 250 + depr: 6 750)*	54 000	54 000	-	-	
Depreciation to date classified as HFS *(90 000 x 10% x 9 / 12)*	(6 750)	(6 750)	-	-	
Impairment	(3 500)	-	3 500	1 050	
Balance: 30 September 20X1	43 750	47 250	3 500	1 050	*Asset*

W2: Current normal tax

		Taxable income
Revenue		75 000
Total expenses	*50 000 + 20 000 + 5 000 + 1 250 + 1 250*	(77 500)
Profit before tax (before impairment)		(2 500)
Add back termination benefits	*Not allowed as a deduction*	5 000
Accounting profits that are taxable		2 500
		0
+ Depreciation	*90 000 x 10% x 9 / 12*	6 750
- Wear and Tear	*90 000 x 10% x 9 / 12*	(6 750)
Bad debts and inventory write-down	*Allowed in the year incurred*	-
Taxable profit		2 500
Current normal tax at 30%		750

W3: Re-measurement adjustments

	Carrying amount per trial balance	Para 19 adjustment	CA after first re-measurement (pre IFRS 5 measurement)	Para: 20 & 23 adjustment	CA after second re-measurement (IFRS 5 Measurement)
Assets	67 250		64 750		61 250
Equipment	47 250		47 250	(3 500) (2)	43 750
Inventory	12 500	(1 250) *: Given*	11 250		11 250
Accounts receivable	7 500	(1 250) *: Given*	6 250		6 250
Liabilities	(7 250)		(7 250)		(7 250)
Accounts payable	(7 250)	-	(7 250)	-	(7 250)
	60 000		**57 500**		**54 000** (1)

(1) 55 000 – 1 000 = 54 000

(2) 57 500 – 54 000 = 3 500 (we know the impairment 3 500 is an impairment of equipment purely by a process of deduction: we have adjusted the inventory and accounts receivable already – and the impairment of 3 500 to the disposal group can't possibly be an increase in accounts payable, so it must be a decrease in equipment).

Solution 21.10

a)

i) A component of an entity comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the entity. In other words, a component of an entity will have been a cash generating unit (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets) while being held for use.

A discontinued operation is a ***component*** of an entity that ***either has been disposed of***, or is classified as held for sale, and represents a separate major line of business or geographical area of operations.

The bicycle division that is being disposed of is a cash generating unit that represents a separate major line of business. It can therefore be classified as a discontinued operation even though the sale of the cash generating unit is not in a single transaction, when it is classified as held for sale.

ii) A disposal group is a group of assets to be disposed of, by sale or otherwise, ***together as a group in a single transaction***, and liabilities directly associated with those assets that will be transferred in the transaction.

Because the component is not disposed of in a single transaction it cannot be classified as a ***disposal group held for sale***. The non-current asset that was disposed of at year end would have been classified as held for sale (by itself) when the plan to sell the asset was formulated (30 September 20X4). However, the other assets and liabilities forming part of the component would not be classified or presented as held for sale as they do not fall within the definition of a non-current asset or disposal group per IFRS 5.

Solution 21.10 continued…..

b)

VOETSTOETS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X4

		Note	20X4 C	20X3 C
Continuing operations				
Revenue			2 700 000	1 732 800
Total expenses *(W3)*			(2 100 000)	(1 300 500)
Profit before tax			600 000	432 300
Income tax expense		3.3	(180 000)	(129 690)
Profit for the period from continuing operations			420 000	302 610
Discontinued operations		5		
Revenue	p33(b)(i)		582 000	601 200
Other expenses *(W4)*	p33(b)(i)		(516 300)	(379 200)
Profit before tax	p33(b)(i)		65 700	222 000
Income tax expense	p33(b)(ii)	3.1	(19 710)	(66 600)
Profit after tax			45 990	155 400
Gain after tax on re-measurement			16 100	0
Loss on re-measuring the asset to fair value less costs to sell	p33(b)(iii)		(3 000)	0
Gain on disposal of asset			26 000	
			23 000	
Income tax expense	p33(b)(iv)	3.2	(6 900)	0
Profit for the period from discontinued operations			62 090	155 400
Profit for the period			482 090	458 010
Other comprehensive income			0	0
Total comprehensive income			482 090	458 010

VOETSTOETS LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X4

5 Discontinuing operation (p41)

A decision to dispose of the bicycle division was taken on the 30th September 20X4 because the division was no longer profitable. The equipment was sold on the 31st December 20X4 for C168 000 cash. It is expected that the remaining assets in the division will be sold by February 20X5.

Solution 21.10 continued…..

b) continued …

ALTERNATE DISCLOSURE:

- **TOTAL ON FACE OF STATEMENT OF COMPREHENSIVE INCOME**
- **WITH SUPPORTING NOTE**

VOETSTOETS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X4

	Note	20X4 C	20X3 C
Continuing operations			
Revenue		2 700 000	1 732 800
Total expenses *(W3)*		(2 100 000)	(1 300 500)
Profit before tax		600 000	432 300
Income tax expense	3.3	(180 000)	(129 690)
Profit for the period from continuing operations		420 000	302 610
Discontinued operations			
Profit for the period from discontinued operations	**5**	62 090	155 400
Profit for the period		482 090	458 010
Other comprehensive income		0	0
Total comprehensive income		482 090	458 010

VOETSTOETS LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X4

		Note	20X4 C	20X3 C
5 Discontinuing operation (p41)				
A decision to dispose of the bicycle division was taken on the 30th September 20X4 because the division was no longer profitable. The equipment was sold on the 31st December 20X4 for C168 000 cash. It is expected that the remaining assets in the division will be sold by February 20X5.				
Analysis of profit for the period from discontinued operations				
Revenue	p33(b)(i)		582 000	601 200
Other expenses *(W4)*	p33(b)(i)		(516 300)	(379 200)
Profit before tax	p33(b)(i)		65 700	222 000
Income tax expense	p33(b)(ii)	3.1	(19 710)	(66 600)
Profit after tax			45 990	155 400
Gain after tax on re-measurement/ sale			16 100	0
Loss on re-measuring the asset to fair value less costs to sell	p33(b)(iii)		(3 000)	0
Gain on disposal of asset			26 000	
		3.2	23 000	
Income tax expense	p33(b)(iv)		(6 900)	0
Profit for the period from discontinued operations			62 090	155 400

Solution 21.10 continued…..

b) continued …

VOETSTOETS LTD
STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 20X4

	Share capital C	Retained income C	Total C
Balance: 1 January 20X3	600 000	171 885	771 885
Total comprehensive income		458 010	458 010
Dividends declared		(120 000)	(120 000)
Balance: 31 December 20X3	600 000	509 895	1 109 895
Total comprehensive income		482 090	482 090
Dividends declared		(180 000)	(180 000)
Balance: 31 December 20X4	600 000	811 985	1 411 985

VOETSTOETS LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X4

		20X4 C	20X3 C
ASSETS			
Non Current Assets			
Property, plant and equipment	*813 150 – 142 000: sold*	671 150	720 000
Current Assets			
Inventory	*263 685 – (42 000 – 33 000): write-down to NRV*	254 685	156 000
Accounts receivable	*(168 000 – (168 000 – 156 000): further bad debts*	156 000	192 000
Cash	*(229 650 + 168 000: proceeds on sale)*	397 650	116 895
		1 479 485	1 184 895
EQUITY AND LIABILITIES			
Capital and reserves	*(from statement of changes in equity)*	1 411 985	1 109 895
Current liabilities			
Accounts payable		67 500	75 000
		1 479 485	1 184 895

Please also note: since the assets are not sold off in a single transaction, there is no disposal group. Thus, only the PPE – as a non current asset - is classified as held for sale. Had there been a disposal group, it would have been necessary to separately disclose the current assets and liabilities as held for sale under IFRS 5 as well.

Solution 21.10 continued…..

c)

VOETSTOETS LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X4

	Note	20X4 C	20X3 C

2 Accounting Policies (IAS 1 p 113)
2.1 Assets held for sale
Non current assets and disposal groups are classified as held for sale when the inflow of economic benefits inherent in those assets are expected to be derived primarily through sale rather than use and the sale is highly probable. (The assets must be available for immediate sale subject only to terms and delays customary for sales of the type in question)

2.2 Discontinued operations
An entity presents the results of its operations as a discontinued operation when the operation represents a component of the entity that has been classified as held for sale or disposed of. Comparatives are restated in this regard

2.3 Tax
Deferred tax is provided for on a balance sheet liability method at 30 % on all temporary differences. Deferred tax assets are raised only to the extent probable sufficient taxable profits will be available against which such assets can be utilised.

3 Tax		**20X4**	**20X3**
3.1 Tax relating to discontinued operations		19 710	66 600
Current tax	W2.1	18 210	66 600
Deferred tax	W1: 1 500 DT on depreciation	1 500	0
3.2 Tax relating to disposal gains/losses and impairments/ reversals of impairments		6 900	0
Current Tax	W2.2	8 400	0
Deferred tax	W1: 900 DT on impairment + 600 DT on sale	(1 500)	0
Total tax relating to discontinued operation		26 610	66 600
Current Tax	20X4: 18 210 + 8 400; 20X3: 66 600 + 0	26 610	66 600
Deferred tax	20X4: 1 500 – 1 500; 20X3: 0 + 0	0	0
3.3 Tax relating to continuing operations		180 000	129 690
Current Tax	W2.3	180 000	129 690
Deferred tax	W1: all temporary differences were caused by an asset that fell within the discontinued operation	0	0
Total tax		206 610	196 290

3 Discontinued operations
See part (b): note 5

Solution 21.10 continued…..

Workings

W1: Deferred tax

Equipment	CA	TB	TD	DT	Journal entries
Balance: 1 January 20X4	160 000	160 000	-	-	
Depreciation /Wear and tear to 30 September 20X4: *200 000 x 10% x 9/12* *200 000 x 10%*	(15 000)	(20 000)	(5 000)	(1 500)	Cr DTL; Dr TE
Impairment *160 000 – 15 000 – 142 000*	(3 000)	-	3 000	900	Dr DTL; Cr TE
CA of asset before sale	142 000	140 000			
CA of asset sold	(142 000)	(140 000)	2 000	600	Dr DTL; Cr TE
Balance: 31 December 20X4	-	-	-	-	

W2: Current normal tax

		20X4	20X3
W2.1 Current tax – discontinued operations			
Profit before tax per statement of comprehensive income		65 700	222 000
Add depreciation		15 000	20 000
Less wear and tear		(20 000)	(20 000)
Taxable profit		60 700	222 000
Current tax at 30%	A	18 210	66 600
W2.2 Current tax – gains/ losses on re-measurement and sales re discontinued operations			
Profit on sale		26 000	
Less impairment loss W2.3		(3 000)	
Profit per statement of comprehensive income		23 000	
Less profit per statement of comprehensive income		(23 000)	
Add Taxable gain (168 000 – 140 000)		28 000	
Taxable profit		28 000	
Current tax at 30%	B	8 400	
W2.3 Current tax – continued operations			
Profit before tax per statement of comprehensive income		600 000	432 300
Current tax at 30%	C	180 000	129 690
Total current tax	A + B + C	206 610	196 290
W2.3 Impairment loss			
Accounting depreciation for 9 months *(200 000 x 10% x 9 / 12)*		15 000	
Decrease in BV *(160 000 – 142 000)*		(18 000)	
Impairment loss		(3 000)	

Solution 21.10 continued…..

Workings continued…..

W3: Expenses of the continuing operation

Total cost of sales	*Given*	2 100 000	1 400 000
Total other expenses	*Given*	498 300	279 700
Less cost of sales	*Discontinued operation*	(420 000)	(350 000)
Less other expenses	*Discontinued operation*	(78 300)	(29 200)
		2 100 000	1 300 500

W4: Expenses of the discontinued operation

Cost of sales	*Given*	420 000	350 000
Other expenses	*Given*	78 300	29 200
Less IFRS 5 impairment	*To be separately disclosed*	(3 000)	
Bad debts (further)	*168 000 – 156 000*	12 000	
Inventory write down to NRV	*42 000 – 33 000*	9 000	
		516 300	379 200

Please note: IAS 36(p28) lists some examples of disposal costs, viz. legal costs, stamp duty and similar transaction taxes (income taxes and finance costs excluded), costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.
However, termination benefits (as defined in IAS 19 Employee Benefits) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Solution 21.11

a)

BIG NIC LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

			Note	20X5 C
Discontinued operations			25	
Revenue	*Given*	p33(b)(i)		590 000
Expenses	*W1*	p33(b)(i)		(602 400)
Loss before tax		p33(b)(i)		(12 400)
Income tax (income)		p33(b)(ii)	3	3 720
Loss after tax				(8 680)
Gain after tax from re-measurement (impairment)				39 550
Loss from re-measuring the asset to fair value less costs to sell	*(17 000 – 16 000)*			(1 000)
Gain on disposal of asset	*(210 000 – 152 500)*			57 500
Net gain before tax		p33(b)(iii)		56 500
Income tax expense		p33(b)(iv)	3	(16 950)
Profit for the period from discontinued operations				30 870
Profit for the period				XXX
Other comprehensive income				0
Total comprehensive income				XXX

Solution 21.11 continued …

b)

BIG NIC LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5 (EXTRACTS)

2. Accounting policies

2.10 Assets held for sale
Non current assets and disposal groups are classified as held for sale when the inflow of economic benefits inherent in those assets are expected to be derived primarily through sale rather than use and the sale is highly probable. (The assets must be available for immediate sale subject only to terms and delays customary for sales of the type in question)

2.11 Discontinued Operations
An entity presents the results of its operations as a discontinued operation when the operation represents a component of the entity that has been classified as held for sale or disposed of. Comparatives are restated in this regard

3 Tax		**20X4**	**20X3**
3.1 Tax relating to discontinued operations		(3 720)	xxx
Current tax	W2.1	8 970	xxx
Deferred tax	W3: 750 + 60 – 13 500	(12 690)	xxx
3.2 Tax relating to disposal gains/losses and impairments/ reversals of impairments		16 950	xxx
Current Tax	W2.2	18 000	xxx
Deferred tax	W3: 300 DT on impairment + 750 DT on sale	(1 050)	xxx
Total tax relating to discontinued operation		13 230	xxx
Current Tax	20X4: 8 970 + 18 000	26 970	xxx
Deferred tax	20X4: 12 690 + 1 050	(13 740)	xxx
3.3 Tax relating to continuing operations		xxx	xxx
Current tax		xxx	xxx
Deferred tax		xxx	xxx
Total tax		xxx	xxx

25 Discontinuing operations

On 1 November 20X5 the board of directors approved and announced a plan to dispose of its operations in Azad Jammu an Kashmir, by selling the assets through several transactions.

This division was previously reported in the Kashmir segment.

The company decided to dispose of its operations in Kashmir because profits have decreased as a result of economic and political uncertainty.

Non current assets classified as held for sale include furniture (C16 000) and buildings (C300 000).

The process of disposing of the Kashmir division is expected to be completed by 30 June 20X6.

The company recognised a provision for employee compensation of C45 000 (before income tax benefit of C13 500) to be paid during March 20X6 to employees whose jobs will be terminated as a result of the discontinuance of operations in Kashmir.

Solution 21.11 continued …

Workings

W1: Total expenses		**C**
Other expenses	Given	553 200
Doubtful debt	21 500 – 19 800	1 700
Inventory write-down	32 000 – 29 500	2 500
Compensation costs		45 000
		602 400

W2: Current normal tax calculation			**20X5**
W2.1 Current tax – discontinued operations			**C**
Loss before tax per statement of comprehensive income			(12 400)
Add depreciation	W2: 27 500 + 2 200		29 700
Less wear and tear	W2: 30 000 + 2 400		(32 400)
Add compensation costs	Given		45 000
Taxable profit			29 900
Current tax at 30%		A	8 970
W2.2 Current tax – gains/ losses on re-measurement and sales of discontinued operations			
Profit on sale	210 000 – 152 500 (W2)		57 500
Less impairment loss	17 000 – 16 000		(1 000)
Profit per statement of comprehensive income			56 500
Less profit per statement of comprehensive income			(56 500)
Add Taxable gain	210 000 – 150 000 (W2)		60 000
Taxable profit			60 000
Current tax at 30%		B	18 000
W2.3 Current tax – continued operations			
Profit before tax per statement of comprehensive income			xxx
Current tax at 30%		C	xxx
Total current tax		A + B + C	xxx

Solution 21.11 continued …

Workings

W3: Deferred tax calculation

Equipment	**Carrying amount**	**Tax base**	**Temporary difference**	**Deferred tax**	**Journal entries**
Balance: 1 January 20X5 *(check: 300 000/ 10 years x 6 years)*	180 000	180 000	0	0	
Depreciation: *(300 000/ 10 x 11 /12)*	(27 500)	(30 000)	(2 500)	(750)	Cr DT, Dr TE
	152 500	150 000			
Carrying amount of asset sold	(152 500)	(150 000)	2 500	750	Dr DT, Cr TE
Balance: 31 December 20X5	0	0	0	0	
Furniture					
Balance: 1 January 20X5 *(check: 24 000 / 10 years x 8 years)*	19 200	19 200	0	0	
Depreciation: *24 000 / 10 x 11/12*	(2 200)	(2 400)	(200)	(60)	Cr DT, Dr TE
Furniture classified as HFS	17 000	16 800			
IFRS 5 Impairment (balancing)	(1 000)	0	1 000	300	Dr DT, Cr TE
Balance: 31 December 20X5 (given)	16 000	16 800	800	240	Asset
Provision for compensation to employees					
Balance: 1 January 20X5	0	0	0	0	
Compensation costs	(45 000)	0	45 000	13 500	Dr DT, Cr TE
Balance: 31 December 20X5	(45 000)	0	45 000	13 500	Asset

Solution 21.11 continued…..

c)

If the land and buildings had been "investment property" they would still be classified and presented as ***held for sale*** (because they are non-current assets). However, they would not be measured in accordance with IFRS 5 as they fall outside the measurement requirements of this standard. Instead, they would be measured in terms of IAS 40 (investment properties).

Consequently, the gain made on measuring the asset to fair value (mark to market) (C50 000) should be processed through *the statement of comprehensive income* under "discontinued operation".

It should be remembered that this exception applies only if the investment property was carried under the fair value model per IAS 40. Had the cost model been used, depreciation would need to cease and the asset would, in terms of IFRS 5:

- be carried at fair value less costs to sell; and
- be presented as held for sale.

Solution 21.12

The issue faced by the accountant of Drummer is whether, in terms of IFRS s/he is allowed to provide for the C10 million of retrenchment costs, as a result of the sale of one of the divisions of the company.

A sale or termination of a line of business falls within the definition of restructuring and should be accounted for in terms of IAS 37, p 70-83.

A provision is a liability of uncertain timing or amount. A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.
- If these conditions are not met, no provision shall be recognised.

In the scenario, it is firstly important to determine whether the retrenchment packages are indeed a *present obligation*.

No legal obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a *binding* sale agreement. However, there may be a constructive obligation that could give rise to a provision

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring identifying at least;
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan.

In this situation, although a detailed plan has been agreed upon in a directors' meeting, no public announcement has yet been made and no assets have been sold. This means that there is no legal obligation (no binding sale agreement) and no constructive obligation (since it is unlikely that the non-communicated plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring).

This means that no provision may be recognised since there is no present obligation.

Had there been a present obligation, a provision would only be recognised if :

- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- the amount of the obligation can be reliably estimated.

Solution 21.12 continued . . .

However it is important to note that a restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity.

Conclusion

No provision should be made since the definition of a liability is not met. If the amount of C10 million is considered to be material to the business, then this should be disclosed as a contingent liability (where there is a possible obligation as opposed to a present obligation).